SURVIVOR BENEFITS
FROM THE DELTA PILOTS DISABILITY AND SURVIVORSHIP PLAN

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Even in the post-bankruptcy environment, the Delta Pilot Disability and Survivorship Plan (D&S Plan) provides **a benefit to eligible survivors of deceased Delta pilots (including both disabled and normally retired pilots) — a survivor's benefit that <u>is distinct from and in addition to</u> any joint life annuity benefits payable under the Delta Pilots Retirement Plan**. This article will review the survivor benefits under the D&S Plan and discuss potential threats to those benefits.

Survivors eligible to receive benefits from the D & S Plan include the "Qualifying Spouse" and in addition, may include natural born or legally adopted children under the age of 19 (under age 23, if still in school.) (IMPORTANT NOTE: A "Qualifying Spouse" is a spouse who was married to the pilot while he/she was an active Delta pilot, and who remains the pilot's legal spouse continuously up until the pilot's death (see the Pilot Benefits Handbook for details.)

HOW MUCH CAN A SURVIVING SPOUSE EXPECT TO RECEIVE?

If you elected a lump sum distribution from the Delta Pilots Retirement Plan, a rough approximation of the surviving spouse's benefit under the D&S Plan is the amount of annuity income that you were receiving from the Delta Retirement Plans (both Qualified and Non-Qualified) prior to Delta's bankruptcy. For pilots who retired after Sept 1, 2005, a rough estimate is one-half of the formula retirement benefit that should have been payable if the Delta Pilots Retirement Plans had not been terminated.

A more accurate estimation involves calculations based upon final average earnings, years and months of Delta service, age at retirement, and variable increases that have occurred since the date of your retirement. An up-to-date estimate of your survivor's benefits from the D&S Plan can be obtained by making a request through the Employee Service Center (1-800-MY-DELTA.) In the near future, a worksheet that calculates estimated survivor's benefits may be posted on the website of the Delta Disabled Pilots and Survivors Association (DDPSA) at www.ddpsa.org.

Finally, most retiring Delta pilots elected a "single life annuity" from the Delta Pilot Retirement Plan based on their reliance on the survivor's benefit provided by the D&S Plan. However, if you elected a joint life annuity under the Delta Pilot Retirement Plan, an additional survivor's benefit may be payable from the PBGC.

DETAILS OF THE CALCULATION

There are various formulas relating to the age of the pilot at the time of death and the number of eligible family members. In general, a surviving spouse is entitled to a benefit that equals 30% of the pilot's Final Average Earnings (FAE) if the pilot had at least 25 years of Delta service prior to retiring at age 60. For pilots who had less than 25 years of Delta service, the survivorship benefit is prorated based upon the pilot's number of months of service with Delta as compared to 300 months (25 years of service.) There is also an early retirement reduction of 3% per year (.25% per month) for pilots who retired before age 60. One-half of the Survivorship Benefit has a variable feature which has the potential to increase the benefit significantly over time. Examples of the calculation of Survivorship Benefits provided by the D&S Plan are included in Attachment #1. Details about the variable benefit are included in Attachment #2.

CHANGES THAT OCCURRED UNDER BANKRUPTCY

During the Bankruptcy process Delta and ALPA negotiated Letter of Agreement #51 (LOA #51) which made changes to the D&S Plan. However, **these changes did not affect:**

a. disability and survivorship **benefits of pilots who retired on or before June 1, 2006,** (or were considered to be retired as of that date)**,**
b. survivorship benefits of **survivors receiving benefits from the D&S Plan** or
c. survivorship benefits of **pilots who retired <u>before</u> January 1, 2008.**

The major changes under LOA #51 included the following:

1. In the course of negotiations, ALPA agreed to allow Delta to spend **$60 million per year from the D&S Trust Fund** to pay for pilot sick leave and other expenditures **in addition** to the previously authorized D&S Plan benefits. This $60 million annual draw from the D&S Trust appears to have filled a gap between the negotiating positions of Delta and ALPA.
2. Future D&S Plan liabilities were reduced by replacing earnings-based survivor benefits with term life insurance beginning in January 2008.
3. Future disability benefits were modified to incorporate various offsets and to terminate at the mandatory FAA retirement age. In lieu of the post-retirement disability benefit, disabled pilots (who were not considered to be retired on or before June 1, 2006) will receive contributions to a defined contribution retirement plan in the amount of 22% of the Long Term Disability benefit until reaching the FAA mandatory retirement age.
4. The D&S Plan participant base was permanently restricted to include only pilots, retired pilots and survivors of deceased pilots.
5. LOA #51 language also included modifications to the disability benefits of retired pilots; however, a bankruptcy court stipulation restricted the enforcement of such modifications.

6. A funding mechanism was defined. Beginning in 2011, if the D&S Trust assets fall below $1.2 billion, Delta will be required to contribute to the D&S Trust, $60 million annually or 4% of free cash flow, **whichever is less.** However, Delta will continue to have the right to withdraw $60 million annually from the D&S Trust Fund for pilot vacation and sick pay.
7. The source of funding for D&S Plan benefits was expanded to specifically include Delta, rather than having the Benefit Fund (primarily the D&S Trust Fund) as the sole source of funding benefits.
8. ALPA was granted an unsecured claim in the amount of $2.1 billion (to be allocated among active pilots) as compensation for contractual concessions. Additionally, LOA #51 entitled ALPA to receive a note in the amount of $650 million (to be allocated among active pilots) in the event that the Delta Pilots Retirement Plan was terminated.

FINANCIAL STATUS OF THE D&S PLAN

The latest information available to Plan Participants is contained in the IRS Form 5500 (and accompanying financial statements) for the plan year that ended on June 30, 2006. As of June 30, 2006, the D&S Plan had assets valued at $1.65 billion and stated Plan Benefit Obligations amounting to $1.715 billion. Notably, the **$300 million** of Plan Assets that will be **used to pay pilot sick and vacation pay** from 2006 through 2010 **is not reflected as a Plan Benefit Obligation**; therefore, it is reasonable to expect that D&S Trust assets will fall far below total plan obligations by the year 2010.

LOOKING TO THE FUTURE

Delta repeatedly has stated that it intends to maintain the D&S Plan indefinitely; however, **Delta has reserved the right** (subject to the collectively bargained agreement) **to modify or terminate the Plan.** If the Plan is terminated, Plan assets cannot revert to Delta, but must be reserved to pay benefits to plan participants. It appears that there would be little incentive for Delta to terminate the D&S Plan as long as there are sufficient assets in the D&S Trust to cover Plan liabilities.

Even if the D&S Trust eventually runs out of assets, the Pilot Working Agreement may provide protection against Delta's ability to terminate the D&S Plan. ALPA arguably has a moral, if not a legal obligation, to protect D&S Plan benefits. The active Delta pilots received a claim in the amount of $2.1 billion in recognition of contractual concessions under LOA #51. One of the major concessions was the authorization for Delta to draw an additional $60 million annually from the D&S Trust Fund for expenditures such as pilot sick leave and vacation pay. If the concessions, for which active pilots were rewarded, result in depletion of D&S Trust assets, it would seem reasonable to expect ALPA to protect benefits that were originally intended to be paid by the D&S Trust.

A major concern of retired pilots is that in recent bankruptcy cases ALPA has been willing to make concessions that are detrimental to the benefits of retired pilots even though ALPA has refused to represent such retired pilots.

In summary, the security of D&S Plan benefits may rely on the answers to the following questions:

1. Will Delta fulfill its repeatedly stated intentions to maintain the D&S Plan?
2. Will ALPA prevent modification or termination of the D&S Plan in the event that Delta reverses course on its repeatedly stated intentions to maintain the Plan?
3. Will the merger with Northwest create additional obligations on the D&S Plan?
4. Will the D&S Trust have sufficient assets to continue to pay D&S Plan benefits if Delta is forced to terminate the D&S Plan as a result of a future bankruptcy?

It is impossible to predict events that could impact the future status of the D&S Plan. Unfortunately, there are valid concerns relating to mergers, long term pressure on the solvency of the D&S Trust and Delta's reservation of the right to modify or terminate the Plan. **If your estate planning is overly reliant on the existence of the D&S Plan survivor's benefit, there may be a rude awakening for your surviving spouse if the D&S Plan is terminated.** Finally, note that arguments for legal protection of retiree D&S Plan benefits are beyond the scope of this article.

See Attachments #1 and #2 below.

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ATTACHMENT #1

The following examples illustrate the calculation of the benefit for an eligible surviving spouse under the D&S Plan. Refer to the example that is similar to your situation.

EXAMPLE #1: Normally retired Pilot with 25 years of service.

A pilot retired in 1995 at age 60 with more than 25 years of Delta service. His FAE was $200,000. The initial calculation of the survivor benefit is 30% of FAE, or $60,000 ($5,000 per month). One-half of the monthly benefit ($2,500) is a Fixed Benefit; the other half ($2,500), a Variable Benefit. The Variable Benefit is converted to benefit units by dividing it by the benefit unit value **as of the date of his retirement.** The benefit unit value in 1995 was $21.66; therefore, the conversion produces 115.42 benefit units. If he dies in 2008, (benefit unit value = $37.30), his surviving spouse will be entitled to a Variable Benefit of 115.42 benefit units X $37.30 = $4,305.17.

Therefore, the total survivor benefit is:

Fixed benefit + Variable benefit = $2,500 + $4,305 = **$6,805 monthly**

There may be future increases or decreases to the Variable Benefit, but it can never be less than the original amount ($2,500).

EXAMPLE #2: Pilot retired with 22 years and 6 months of service at age 55.

A pilot retired in 2003 at age 55 with 22 years and 6 months (270 months) of Delta service. His FAE was $250,000. The initial calculation of the survivor benefit is as follows:

FAE X 30% X (months of Delta service/300) X **early retirement factor*** =

$250,000 X .3 X (270/300) X .85 = $57,375 annually or $4,781.25 monthly

One half of the monthly benefit ($2,391) is a Fixed Benefit; the other half ($2,391) has a variable feature. The Variable Benefit is converted to benefit units by dividing it by the benefit unit value **as of the date of his retirement.** The benefit unit value in 2003 was $34.19; therefore, the conversion produces 69.92 benefit units. If he dies in 2008, (benefit unit value = $37.30), his surviving spouse will be entitled to a Variable Benefit of 69.92 benefit units X $37.30 = $2,608

Therefore, the total survivor benefit is:

Fixed Benefit + Variable Benefit = $2,391 + $2,608 = **$4,999 monthly**

There may be future increases or decreases to the Variable Benefit, but it can never be less than the original amount ($2,391).

***The early retirement factor** is determined by the following calculation:

1. Determine the number of months you retired before age 60.
2. Multiply the answer from #1 by .0025 (in this example, 60 X .0025 = .15).
3. Subtract the answer from #2 from 1.0 (in this example, 1.0 - .15 = .85).

EXAMPLE #3: Former Western pilot, retired in 1995 at age 60.

A former Western pilot retired in 1995 at age 60 with 7 years and 5 months (89 months) of Delta service. His FAE was $160,000. The initial calculation of the survivor benefit is as follows:

FAE X 30% X (months of DeltaService/300) =
$160,000 X.3 X (89/300) = $14,240 annually.

The initial calculation of the monthly benefit ($1,186) is divided into a Fixed Benefit in the amount of $593 and a Variable Benefit of $593. The Variable Benefit is converted to benefit units by dividing it by the benefit unit value **as of the date of his retirement.** The benefit unit value in 1995 was $21.66; therefore, the conversion produces 27.393 benefit units. If he dies in 2008, (benefit unit value = $37.30), his surviving spouse will be entitled to a Variable Benefit of 27.393 benefit units X $37.30 = $1,021.76

Therefore, the total survivor benefit is:

Fixed Benefit + Variable Benefit = $593 + $1,022 = **$1,615 monthly**

There may be future increases or decreases to the Variable Benefit, but it can never be less than the original amount ($593).

EXAMPLE #4: Former Western pilot, retired in 2001 at age 60.

A former Western pilot retired in 2001 at age 60 with 14 years and 3 months (171 months) of Delta service. His FAE was $170,000. The survivor's benefit is calculated as follows:

$170,000 X 30% X (171/300) = **$29,070 annually or $2,422 monthly**.

The monthly Fixed Benefit is $1,211; and the monthly Variable Benefit, $1,211. Because Variable Benefit unit values have **decreased** since the date of retirement, the Variable Benefit will remain at $1,211 (**total survivor benefit $2,422 monthly**) until the variable unit value exceeds the unit value at the time of retirement. In 2001, the benefit unit value was $37.55. As of April 1, 2008, the benefit unit value is $37.30. Variable increases will begin to occur on April 1st of the year that the benefit unit value exceeds $37.55.

EXAMPLE #5: Former Pan Am pilot, retired in 2001 at age 60 or greater.

A pilot joined Delta from Pan Am in 1991 and retired 10 years and 2 months (122 months) later at age 60 or greater. His FAE was $150,000. The survivor benefit under the D&S Plan is calculated as follows:

FAE X 30% X (months of DeltaService/300) =
$150,000 X 30% X (122/300) = **$18,300 annually or $1,525 monthly**.

One-half of the $1,525 monthly benefit has a variable feature that may increase the benefit in the future. Because variable benefit unit values have **decreased** since the date of retirement, the Variable Benefit will remain at $712.50 (**total survivor benefit $1,525 monthly**) until the variable unit value exceeds the unit value at the time of retirement. In 2001, the benefit unit value was $37.55. As of April 1, 2008, the benefit unit value is $37.30. Variable increases will begin to occur on April 1st of the year that the benefit unit value exceeds $37.55.

EXAMPLE #6: Disabled pilot, retired at age 60.

A pilot suffered a heart attack that ended his flying career in at age 53, in 1989. He remained on the seniority list in a disabled status for 7 years and retired at age 60 in 1996 with over 25 years of credited Delta service. His FAE at the time of his disability was $120,000. His Long Term Disability (LTD) benefit was initially $60,000 annually, but as a result of the variable feature, his LTD benefit increased to $75,154 on the date of his retirement. His Retirement Plan “formula benefit” of $72,000 (whether or not he elected the lump sum distribution) was deducted from the LTD benefit, providing him with a net benefit from the D&S Plan of $3,154 annually ($263 monthly) in the first year after his retirement. At the time of his death in 2008, he was receiving an annual net benefit from the D&S Plan in the amount of $8,598 ($716 monthly.) This net benefit is a result of his LTD benefit having increased to $102,007 and the reduction for retirement benefits (the offset) having increased to $93,409.

The survivor benefit under the D&S Plan is 50% of the LTD benefit payable immediately before his death (**before offset for retirement benefits.**) In this case, 50% of the $102,007 annual LTD benefit = **$51,003 annually or $4,250 monthly**. The variable portion of the benefit may increase over time, but can never be less than $1,250 (50% of the variable portion of his original LTD benefit.)

ATTACHMENT #2

INFORMATION ABOUT THE VARIABLE PORTION OF D&S BENEFITS

As discussed earlier, D&S Plan benefits are divided into fixed and variable portions. The variable portion is converted to benefit units by dividing the dollar value of the variable portion by the benefit unit value as of the date of retirement or the date that the payment of benefits commence under the plan, whichever comes first. Benefit unit values are determined each year on April 1st. The benefit unit value is multiplied by the number of benefit units to determine the Variable Benefit. Accordingly, the variable portion of D&S Plan benefits may increase each year on April 1st depending upon the investment performance of the assets in the D&S Trust; however, the Variable Benefit can never decrease below one-half of the initial benefit.

The formula for determining the magnitude of variable increases uses a 5 year weighted average of actual investment performance minus 6.5%. The investment performance in the most recent calendar year is counted 5 times; the yield in the previous year, 4 times; the yield 2 years previously, 3 times; the yield 3 years previously, 2 times; and the yield 4 years previously, 1 time. The sum of this calculation is divided by 15 to produce a weighted average of the investment performance. The weighted average of investment performance is reduced by 6.5% to produce the annual change in the benefit unit value.

The table below lists the benefit unit value for the years 1980 through 2008.

YEAR	BENEFIT UNIT VALUE	YEAR	BENEFIT UNIT VALUE
1980	$7.92	1998	$28.51
1981	$8.54	1999	$31.65
1982	$9.02	2000	$35.42
1983	$9.97	2001	$37.55
1984	$11.04	2002	$37.29
1985	$11.63	2003	$34.19
1986	$12.68	2004	$33.68
1987	$13.92	2005	$33.78
1988	$14.69	2006	$34.29
1989	$15.54	2007	$35.59
1990	$16.92	2008	$37.30
1991	$17.31		
1992	$18.66		
1993	$19.80		
1994	$21.19		
1995	$21.66		
1996	$23.39		
1997	$25.50		